THE IMPACT OF FOREIGN INVESTMENT INFLOW ON THE BEHAVIOUR OF STOCK MARKET (WITH SPECIAL REFERENCE TO NATIONAL STOCK EXCHANGE'S SECTORAL INDICES): AN ANALYSIS

A

Synopsis

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Under the Supervision of:

Prof. L.N. Koli

Dept. of Accountancy & Law,

Faculty of Commerce

Submitted by

Amit Kumar

(Research Scholar)

DAYALBAGH EDUCATIONAL INSTITUTE

DEEMED UNIVERSITY, DAYALBAGH, AGRA-282005

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INTRODUCTION

Foreign Investment Inflows

Foreign investment has been defined to mean any investment made by a person resident outside India on a repatriable basis, thus clarifying that investment on a non-repatriation basis will be at par with domestic investment.

Foreign Investments can be done through the various routes:-

- **Automatic Route:** Foreign Investments is allowed under the automatic route without the prior approval of the Government or Reserve Bank of India.
- **Government Route:** Foreign investments in activities not covered under the automatic route require prior approval of the government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.

Kinds of Foreign Investment in India

Foreign Direct Investment (FDI):

The definition of FDI under the New Regulations differentiates between investment in an Indian listed company and unlisted company while recognising the calculation of limits on a fully diluted basis. Any investment in a Capital Instrument of an unlisted company on a fully diluted basis shall be treated as FDI.

Foreign Portfolio Investments (FPI)

The definition of FPI is aligned with the SEBI regulations on FPI. Accordingly, any investment by a Foreign Portfolio Investor or Investor Group in a listed Indian company

that is less than 10% of the paid-up share capital (post issue) or less than 10% of the paid-up value of each series of Capital Instruments shall be regarded as FPI.

Commercial loans

Commercial loans primarily take in the form of bank loans issued or taken from foreign businesses or governments.

Official flows

Official flows refer generally to the forms of development assistance that developed nations give to developing ones.

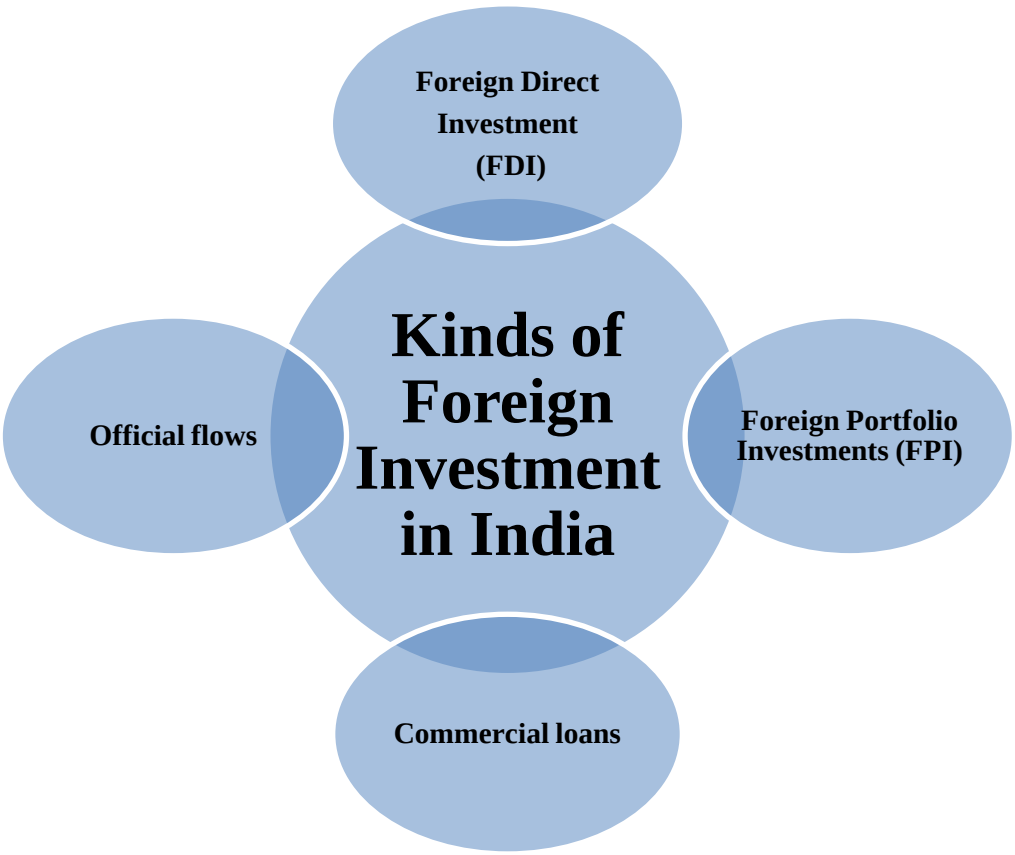

Fig. 1: Kinds of Foreign Investments in India

Recent status of foreign investment inflows in India:-

- Data for April- September2017 indicates that the telecommunications sector attracted the highest FDI Equity inflow of US$ 6.08 billion, followed by computer software and hardware-US$ 3.05 billion and services- US$ 2.92 billion. Most recently, the total FDI equity inflows for the month of September 2017 touched US$ 2.12 billion.

- During April-September 2017, India received the maximum FDI equity inflows from Mauritius(US$ 11.47 billion) followed by Singapore(US$ 5.29 billion), Netherlands(US$ 1.95 billion), U.S.A.(US$ 1.33 billion) and Germany (US$ 934 million).

- As per Mr. Anil Sinha, Global Impact Investing Network's(GIIN's) advisor for South Asia, Indian impact investments may grow 25% annually to US$ 40 billion by 2025 which is US$ 4 billion as reported in December 2017.

- According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments in India during April-September 2017 stood at US$ 33.75 billion, indicating that government's effort to improve ease of doing business and relaxation n FDI norms is yielding rsesults.

- While the US remained the best foreign investment destination in 2016 with $391 billion in FDI inflows, the UK saw an unprecedented rise from $33 billion in 2015 to $254 billion in 2016.

REVIEW OF LITERATURE

The forthcoming study investigates an analysis the impact of foreign investment inflow on the behaviour of stock market, spanning the period 2009 to 2016.

International Reviews:

Sr.No	Author/S	Topic	Year	Objectives	Findings
1.	Rahul Pandey	FII investments and its impact on Indian stock market	2016	The objective of this study is to determine the relationship between FIIs and Stock Market and to find out the pattern of investment by FII.	The FIIs are influencing the Sensex movement to a greater extent. Further it is evident that the Sensex has increased when there are positive inflows of FIIs and there were decrease in Sensex when there were negative FII inflows.
2.	Renuka Sharmaand Kiran Mehta	Dynamic Interaction of FIIs/FPIs and Indian Stock Market	2016	The objective of the present study is to study the effect of FII flows on the Indian stock market specifically on various sector specific indices.	FII flows have utilized an impact on movements of Indian stock prices through more recent periods.
3.	Dr. Vidya Sekhri and Moinul Haque,	Impact of Foreign Investments on Indian Stock Market An Empirical Study	2015	The objective of the study the impact of Foreign Institutional Investment (FII) on stock market in India	The study is evident that there is a strong positive correlation between FDI & Sensex and FDI &

				(BSE SENSEX and NSE CNX).	Nifty and moderate positive correlation between FII & Sensex and FII & Nifty.
4.	Dr. Sandeep Kapoor And Mr. Rcoky Sachan	Impact Of FDI & FII On Indian Stock Markets	2015	This study tried to understand the relationship and impact of FDI & FII on Indian stock market with special reference to Sensex and NIFTY by taking the data of FY 2001-02 to 2013-14 and the study used regression and correlation to analysis the data.	The findings of the study reveal that the flow of foreign capital is playing a significant role in the development of Indian stock markets. Current study it is evident that there is a weak positive correlation between FDI & Sensex and FDI & NIFTY and strong positive correlation between FII & Sensex and FII & NIFTY.
5.	V. Krishna Mohan, K. V. Siva Prasad	FIIs impact on Indian stock market-A Study focused on BSE Sensex and NSE NIFTY index.	2015	The objective of this study is to understand the relation and impact of foreign institutional investment (FII) on BSE Sensex & NSE NIFTY.	The conclusion of the study reveals that the FII's are not the cause of volatility in Indian stock markets but there may be various other reasons which affect the market.
6.	Hemkant Kulshrestha	Impact of Foreign Institutional Investors	2014	The objective of the study is to find out whether there	The Conclision of the study also indicate that Foreign

		(FIIs) on Indian Capital Market		exist relationship between FII and Indian capital market.	Institutional Investors have emerged as the most dominant investor group in the domestic capital market particularly, in the companies that constitute in BSE Sensex and CNX Nifty.
7.	Rahul Dhiman & Preeti sharma	Impact of Flow of FDI on Indian Capital Market	2013	The objective of the study the impact of foreign capital in the form of FDI on the stock market.	The Study Concluded that there is strong degree of correlation between FDI & Sensex, and FDI & Nifty. From table1 it is quiet clear that larger inflow of FDI means bullish trend in the capital markets.
8.	Shikha Menani	FDI And FII As Drivers Of Growth For Indian Economy: A Comparison	2013	This study tried to find the relationship between economic growth and FDI by using unit root test and granger causality test.	In India it has been much easier to attract FII because of less procedural requirements as compared to FDI where the licensing requirements are too burdensome & there is no causal relation between the economic growth and inflow of FDI.

9.	Dr. Syed Tabassum Sultana and Prof. S Pardhasaradhi	Impact of Flow of FDI & FII on Indian Stock Market	2012	The objective of his research is to find the trends & patterns in the FDI from different countries flown into India	The impact of flow of FDI & FII on Indian stock market is significant.
10.	Vladimir Arcabic, Tomislav Globan & Irena Raguz	The relationship between the stock market and foreign direct investment in Croatia: evidence from VAR and cointegration Analysis	2012	The aim of this paper is to investigate the existence and characteristics of both the long- and short-term relationships between FDI and the stock market in Croatia.	The theory suggests bidirectional causality between foreign direct investment and stock market movements, but the direction of the relation varies in different time frames. In the short run, positive trends in stock markets can serve as an indicator of the vitality of the market, favourable investment climate and the country's openness to foreign investment. Therefore, movements in stock markets directly affect the amount of FDI in the short run. In the long run, however, the

					direction of causality is reversed. Namely, if FDI encourages rapid technological progress and economic growth through the transfer of know-how and technology, then it indirectly affects the growth of stock markets as well.
11.	R.Karthik & Dr.N.Kannan	Impact Of Foreign Direct Investment on Stock Market Development: A Study with reference to India	2011	The paper investigates the impact of FDI on the stock market development of India. The key interest revolves around the complementary or substituting role of FDI in the stock market development of India.	Volatility of foreign exchange and the rate of interest should be minimized through appropriate monetary policy. Results suggest positive impact of all macro-economic variables on the stock market development of India.
12.	Rahul Pandey	FII Investments And Its Impact On Indian Stock Market	2009	The objective of the study is to determine the pattern of investment & relationship between FII's and stock market	The results reveal that the FII's are influencing the Sensex movement to a greater extent. Further it is evident that the Sensex has increased when there are positive

					inflows of FII's and there were decrease in Sensex when there were negative FII's inflows.

National Reviews:

Sr.No	Author/S	Topic	Year	Objectives	Findings
1.	Dr.B.J. Queensly Jeyanth	Impact of FIIs on National Stock Exchange of India	2016	The objective of this study is to analyse the relation and impact of Foreign Institutional Investment (FII) on Indian stock market.	The results of the study show that the FIIs did have a moderate significant impact on the Indian capital market. FII'S have a positive impact on NSE.
2.	Dr. Mayur Shah	Flows Of FIIs and Indian Stock Market	2014	The objective of the study the trends, patterns, relation and impact of foreign capital flow into India in the form of FII.	The flow of FII has advanced significantly from the year 2001 to year 2013 and there is a correlation between such FII flows and changes in stock market indices like NIFTY. Other factors might be contributing towards volatility of Indian stock market.
3.	Bashir Ahmad Joo, Zahoor Ahmad Mir	Impact Of Fiis Investment On Volatility Of Indian Stock Market: An	2014	The objective of this study is to understand the relationship between FII's investments and stock market	The findings of the study reveal that the volatility of FII's also has increased over the period mainly during the crises period. The

		Empirical Investigation		volatility.	results further reveal that there is moderate degree positive correlation between FIIs and NIFTY and Sensex.
4.	Anubha Shrivastav	A Study of Influence of FII Flows on Indian Stock Market	2013	The objective of the study is to determine the behaviour and trend of FII's on Indian stock market.	The study observed that investments by FIIs and the movements of Sensex are quite closely correlated in India and FIIs wield significant influence on the movement of Sensex.
5.	Ali Alizadeh Giashi	Role of Stock Exchanges in the Promotion of Capital Market: A Comparative study of India and Iran,	2012	The objective of the whole research exercise was to try and compare various stock exchanges in general and NSE and TSE in particular based on certain parameters to test role of stock exchanges in the promotion of capital market and to understand the impact of integration of the world capital markets in the wake of globalization and to assess relative liquidity and volatility and world stock	The study reveals that Indian and Iranian capital markets were embedded with numerous changes. There are several systematic changes that have taken during the short history of both the market. The stock markets do promote the capital markets in every country as they augment the process of free flow of capital from savers to users, from one state to other state, from one country to other country. The ever increasing volume of shares/bonds trading is a clear

				markets in general and NSE and TSE in particular.	proof of it. Growths across all parameters substantiate the role of stock exchange in the promotion of capital market.

NEEDS OF THE STUDY:

After reviewing the past Literatures the following needs are felt by the researcher

- Stock exchanges always considered as Development tools to the Companies of any Country thus there is the need to analyse the Impact of Foreign Investment Inflows on the Behaviour of Stock Market.
- Many researchers concluded by stating that the FII's has moderate impact on Stock market while some of above concluded by saying that a moderate significant impact on the Stock Market it might changes time to time thus the study will be done to re-verify the Fact.
- All the above literature, study to analyse the impact of Foreign Direct Investment and Foreign Institutional Investors as a whole but no study has done for the Analysis of Impact of Foreign Investment Inflows on the Behaviour of Stock Market (With Special reference To National Stock Exchange's Sectoral Indices).

OBJECTIVES OF THE STUDY

This study will be conducted with a variety of following objectives:

- To evaluate the Impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange's Sectoral Index such as NIFTY BANK, NIFTY AUTO, NIFTY FIN SERVICES, NIFTY FMCG, NIFTY IT, NIFTY MEDIA, NIFTY METAL, NIFTY PHARMA, NIFTY PSU BANK, NIFTY PVT BANK, & NIFTY REALTY.
- To evaluate the overall Impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange on NIFTY50 Index.

- To understand and analyse the impact Foreign Investment Inflows on the perception of Domestic Investors and Foreign Investors.

RESEARCH HYPOTHESES:

To provide the scientific base to the findings, the researcher has constructed the following hypothesis:

Ho_1: There is no significant Impact of Foreign Investment on the Behaviour of National Stock Exchange's Sectoral Index.

Ha_1: There is a significant Impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange's Sectoral Index.

Ho_2: There is no significant impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange's NIFTY 50 Index.

Ha_2: There is a significant impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange's NIFTY 50 Index.

Ho_3: There is no significant impact of foreign Investment Inflows on Domestic Investors and Foreign Investors.

Ha_3: There is an impact of foreign Investment Inflows on Domestic Investors and Foreign Investors.

RESEARCH METHODOLOGY:

To accomplish the objectives of study following research methodology is proposed.

- **Type of Data**

  In order to **the Impact of Foreign Investment Inflows on the Behaviour of Stock Market** primary as well as secondary data will be taken in consideration.

Types of Data	**Data Collection Sources**
Primary Data	Well Designed Questionnaire
Secondary Data	• Official website of RBI • RBI Published Reports • NSE's Website • Other Relevant Websites. • Business Newspapers i.e., Economic Times, The Financial Express, Business Standard & other relevant Newspapers.

- **Sample Size**

  - On the basis of Judgemental Sampling, 500 investors investing in NSE's will be the sample size of study out of which 250 will be foreign investors and 250 will be domestic investors.

  - All sectoral Indices of National Stock Exchange as stated on NSE's Website.

- **Tools for Data Presentation & Analyzes**

- According to the Nature of Data, F-test, Regression and other relevant tools may apply as the case may be will used.

- **Duration of the Study**

  In order to Know the Impact of Foreign Investment Inflows on the Behaviour of Stock Market five financial Year from 2015-16 to 2019-20 will be considered.

OBJECTIVEWISE RESEARCH METHODOLOGY

The researcher will use the following Specific Research Methodology:

Sl. No.	Objectives	Research Methodology
1.	To evaluate the Impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange's Sectoral Index such as NIFTY BANK, NIFTY AUTO, NIFTY FIN SERVICES, NIFTY FMCG, NIFTY IT, NIFTY MEDIA, NIFTY METAL, NIFTY PHARMA, NIFTY PSU BANK, NIFTY PVT BANK, & NIFTY REALTY.	To achieve the objective the researcher will apply Correlation and Regression.
2.	To evaluate the overall Impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange on NIFTY50 Index.	To achieve the objective the researcher will apply Correlation and Regression.
3.	To understand the perception of Domestic Investors and Foreign Investors regarding Foreign Investment Inflows.	To Fulfill the objective a Questionnaire will be prepared and on the basis of Questionnaire the researcher will examine the perception of investors.

PROPOSED PLAN OF THE STUDY:

Chapter 1	Introduction
Chapter 2	Review of literature
Chapter 3	Legal framework of Foreign Investment in India
Chapter 4	Analysis and Interpretation of impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange's Sectoral Index.
Chapter 5	Analysis and Interpretation of overall Impact of Foreign Investment Inflows on the Behaviour of National Stock Exchange on NIFTY50 Index.
Chapter 6	Analysis and Interpretation of Investor's Perception towards foreign Investment.
Chapter 7	Findings, Suggestions & Conclusion.

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AMIT KUMAR
RESEARCH SCHOLAR

PROF. L.N.KOLI
SUPERVISOR

DEPT. OF ACCOUNTANCY & LAW

FACULTY OF COMMERCE

`

PROF. PRAMOD KUMAR
HEAD,

DEPT. OF ACCOUNTANCY & LAW

FACULTY OF COMMERCE

PROF. S.P.KAUSHIK
DEAN,

FACULTY OF COMMERCE